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DEPT FOR WHA/BSC, EB/TPP
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TAGS: EAGR WTRO ETRD ECON BR
SUBJECT: GOB PROVIDES EMERGENCY AID TO SOY FARMERS

¶1. Summary. The Brazilian federal government announced on May 12 a subsidy of 1 billion Reais (approximately US$470 million) in emergency aid for soybean farmers in the form of price supports. The package seeks to reduce the indebtedness of soy farmers and help improve the generally adverse agricultural situation, owing to the strong Real and high production and transportation costs. The "mini-package" was not well received by the soybean sector, which considered it belated and insufficient to remedy their losses. Nor did the emergency aid persuade farmers, mostly from the country's Center-West region, to cease their continuing protests against the federal government's agricultural policies. End Summary.

¶2. On May 12, 2006, the Brazilian government announced one billion Reais (US$470 million) in emergency aid for the soybean sector. This amount is in addition to US$8 billion that was announced April 6 in the form of price supports, debt rollover, and crop insurance for the general agricultural sector. This new package for soy is intended to subsidize part of the increase in transportation costs due to higher diesel prices.

¶3. Some government officials here have expressed concern that the emergency aid will be viewed as a direct subsidy for producers, therefore compromising Brazil's position at the WTO. However, other officials dismiss this concern, arguing that the amount of aid contemplated is so small that it would neither affect Brazil's bargaining position in the Doha negotiations nor prove inconsistent with the country's current WTO obligations. They contend that because the prevailing level of Brazilian subsidies is so low, the current package will fit within both the "de minimis" 10% of gross production value limit on direct subsidies and the ceiling on General Support Measures up to an additional US$900 million.

¶4. The GOB will disburse the additional emergency aid through Private Option Risk Premium (PROP) options. PROP is a price support program managed by CONAB, the Brazilian food supply company equivalent to the Commodity Credit Corporation, and linked to the Ministry of Agriculture. The PROP option price represents the maximum amount that CONAB will pay to cooperatives and processors in order to guarantee a certain price to producers, which is above the market price. The first weekly auction of PROP options will be conducted on May 23, 2006. The goal is to assist in the sale of 15 to 20 million metric tons of soybeans. The government plans to pay producers between US$0.70 and $2.80 per 60-kilo bag of soybeans,

depending on how far the producer is located from port.

¶5. The "mini-package," as it is being referred to, was not well received by the soybean sector, which complained that it was like "giving an aspirin to someone in the intensive care unit". Producers had requested 3 billion Reais for the state of Mato Grosso alone. Producers also question the timing of the subsidy as much of the 2005/06 crop has already been sold.

¶6. After three years of adverse conditions, the vast majority of Brazilian farmers are not in a positive financial position and the mood of the sector is austere. In late April, Brazilian soybean farmers began blockading roads in Mato Grosso, Parana, and Rio Grande do Sul states, demanding minimum price guarantees for their crop. Farmers claim that the government minimum price does not cover their current production costs. The government's minimum price for soybeans is about US$115 per metric ton. Farmers state this year's cost of production to be in the range of US$230 per metric ton.

¶7. When the Brazilian government rejected farmers' proposal for a higher minimum price, farmers began blocking access to storage facilities to prevent exports from leaving the country. Farmer protests have entered their fourth week, and Brazilian and U.S. industry officials report that no soybeans are being exported. According to ANEC, the Brazilian Exporters' Association, accumulated losses so far are in the US$100 million range, and it may be possible that American soybeans and Argentine meal and oil will fill Brazil's pending contracts.

¶8. The combination of low international prices, rising costs of inputs and transportation (including higher diesel prices), and the strong Real has continued to cut away at farmers' profit margins. Other Brazilian industries are also suffering from a similar

cost-price squeeze, including those that produce a range of export goods such as cars, car parts, shoes, machines, and furniture. On May 10, the U.S. dollar slumped to 2.0, its lowest exchange rate against the Brazilian Real in five years, bad news for Brazilian soybean farmers. While in recent days the dollar has rallied (up to 2.13 as of May 16), many Brazilian industries will not see significant relief until the exchange rate rises at least until 2.5 to 1.

¶9. For the first time in seven years, the area projected for soybean cultivation in Brazil is projected to decline. Post estimates that this year's planted area is down 4 percent and that next year's area will be down another 2 percent. The governor of Mato Grosso, and Brazil's largest soybean farmer, recently projected a 10 percent drop in planted soybean area for 2006/07.

Comment

¶10. Revenues from soybeans, the country's most valuable export crop, are vital to the Brazilian trade balance. So far in 2006, soybeans represent a staggering 8% of total Brazilian exports, yet this represents a drop from 12% in 2005. As Brazil's continued economic growth remains highly dependent on exports, further contraction of the soybean sector would increase the country's vulnerabilities.

Chicola